

LATIN-AMERICAN TRADE

REPORT

OF THE

LATIN-AMERICAN TRADE COMMITTEE

APPOINTED BY THE SECRETARY OF COM-
MERCE, HON. WILLIAM C. REDFIELD, PUR-
SUANT TO A RESOLUTION ADOPTED AT
THE INFORMAL LATIN-AMERICAN TRADE
CONFERENCE CALLED AT WASHINGTON,
D. C., ON SEPTEMBER 10, 1914, BY THE
SECRETARY OF STATE AND THE
SECRETARY OF COMMERCE



PRESENTED BY MR. BURTON

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LATIN-AMERICAN TRADE.

The informal conference assembled at Washington on September 10, 1914, by the Secretary of State and the Secretary of Commerce brought together a number of diplomatic and consular representatives of republics of South and Central America, and representatives of American business and of commercial and industrial organizations, including the Chamber of Commerce of the United States of America, the Southern Commercial Congress, and the National Foreign Trade Council. After a general discussion, which brought forth prominently the commercial needs of both the United States and the sister republics, a resolution was adopted requesting the Secretary of Commerce to appoint a general committee on Latin-American trade to consist of the members of the Latin-American committee, already appointed by the National Foreign Trade Council, and representative men from various parts of the United States.

Secretary Redfield accordingly appointed as members of the committee:

- John Barrett, Director General the Pan American Union, Washington, D. C.
- William Bayne, president of the New York Coffee Exchange, New York, N. Y.
- W. B. Campbell, president Perkins-Campbell Co., Cincinnati, Ohio.
- Robert Dollar, president Robert Dollar Co., San Francisco, Cal.
- James A. Farrell, of New York, chairman National Foreign Trade Council.
- William A. Gaston, president National Shawmut Bank, Boston, Mass.
- J. P. Grace, president W. R. Grace & Co., New York, N. Y.
- Fairfax Harrison, president Southern Railway Co., Washington, D. C.
- Alba B. Johnson, president Baldwin Locomotive Works, Philadelphia, Pa.
- C. J. Owens, managing director Southern Commercial Congress, Washington, D. C.
- Lewis W. Parker, president Parker Cotton Mills, Greenville, S. C.
- William E. Peck, president William E. Peck & Co., New York, N. Y.
- William Schall, Müller, Schall & Co., New York, N. Y.
- W. D. Simmons, president Simmons Hardware Co., St. Louis, Mo.
- Willard Straight, with J. P. Morgan & Co., New York, N. Y.
- E. P. Thomas, president United States Steel Products Co., New York, N. Y.
- J. H. Waddell, Hard & Rand, New York, N. Y.
- Daniel Warren, American Trading Co., New York, N. Y.
- Harry A. Wheeler, vice president Union Trust Co., Chicago, Ill.

In his letter of appointment of members, the Secretary of Commerce wrote:

The enlarged committee will, it is expected, organize itself as it sees fit, will consult as may be required with the diplomatic and consular representatives of Latin America, and will be assisted in any way practicable by the Departments of State and Commerce. It should be understood, however, that the committee has no official relations with the Government, but that it represents an effort on the part of the commercial and financial world to deal in a practical and businesslike way with the problems of the business relations between Latin America and the United States, on which so much of the welfare of all the countries concerned depends. It is my earnest hope that much may be done through the above-named committee of lasting and general benefit.

The committee met at the New Willard Hotel, at Washington, D. C., at 10.30 a. m., Friday, October 2, 1914. The Secretary of Commerce and Robert Rose, foreign trade adviser of the Department of State, were present.

James A. Farrell was elected chairman and Robert H. Patchin, 64 Stone Street, New York City, secretary of the committee.

Mr. W. E. Peck presented the report of the Latin-American Committee of the National Foreign Trade Council as a basis for discussion. This report was the result of an investigation of Latin-American problems by persons engaged in that commerce.

After a general discussion and certain modifications and amplifications, the report was adopted by the larger committee. It is herewith published in full.

The committee will proceed to consider other phases of the trade between the United States and the other Republics of the Western Hemisphere which were discussed at the conference of September 10.

REPORT AND RECOMMENDATIONS OF LATIN-AMERICAN TRADE COMMITTEE.

[Appointed by the Hon. W. C. REDFIELD, Secretary of Commerce of the United States, pursuant to resolution of the informal Latin-American trade conference at Washington, Sept. 10, 1914.]

Industrial, commercial, and financial conditions throughout the world have been disorganized by the European war. The trade of the United States with Latin America has been seriously affected. The present period of confusion will, however, be succeeded by one of readjustment and reorganization. Your committee was appointed to investigate this situation, and to suggest measures to relieve the emergency and to place the trade of the United States with the sister Republics on a permanently satisfactory and mutually profitable basis.

The products of Argentina, Brazil, Chile, and Peru, exported to the United States differ each from the other, and are dissimilar in turn from those which we in this country import from Bolivia, Colombia, Ecuador, Paraguay, Uruguay, and Venezuela, from the Central American States, and Panama, from Mexico and from Cuba, the Dominican Republic, and Haiti. These products for the purposes of this analysis, may be considered together as raw materials, just as the goods which we export to these countries may be classified as manufactures. Mutual advantage for both the United States of America and the other Republics lies in a wider interchange.

In a properly comprehensive report the trade of the United States with each of the Latin-American Republics should be separately considered. We realize that in each case the problem is different and demands an individual solution. In general, however, this trade rests solely on exchange of commodities; that it has, in its essentials, been barter, with a settlement of balances through London, and has not been built up by extensive investment of foreign capital as has been the case with British and German trade.

The accompanying report deals with certain underlying principles applicable to our Latin-American trade as a whole. We feel that recognition of basic facts affords the only proper basis for meeting problems which while they differ in the several countries are nevertheless fundamentally the same.

Your committee feels that articles recently appearing in the press regarding commercial opportunities in Central and South America have unduly emphasized the promising aspects thereof, and have, in most instances, failed to state that our exporters already doing business with these regions find that their sales have been decreased rather than increased owing to the war.

Your committee recognizes the present time as one when competition is less effective than in the past and than it will be in the future, until European bankers, merchants, and manufacturers recover from the effects of the war.

Your committee, moreover, believes that an opportunity is now afforded to place the trade of the United States with other American

nations upon a firm foundation, supporting a more comprehensive structure, which may be built as the situation again more nearly approaches normal.

Your committee feels, however, that there is great danger that our merchants and manufacturers unfamiliar with Latin-American conditions may be induced by recent publicity to undertake ventures in that field which not only will be unremunerative but actually disastrous, and, in their ultimate result, make for a reaction of the very healthy and much to be desired interest in foreign trade now manifest throughout the United States, an interest which, if properly directed should be of great permanent value.

SOUTH AMERICAN TRADE CONDITIONS.

The trade of the principal South American countries with England, Germany, and the United States is shown by the following table:

Imports and exports of the South American countries from and to England, Germany, and the United States for the years specified.

[Compiled by the Bureau of Foreign and Domestic Commerce, Department of Commerce, from official reports of the respective countries.]

Country.	Year.	England.		Germany.		United States.	
		Imports.	Exports.	Imports.	Exports.	Imports.	Exports.
Argentina.....	1913	\$126,305,556	\$116,154,937	\$68,815,721	\$55,888,788	\$59,861,703	\$22,096,38
Brazil.....	1912	77,509,079	43,006,473	52,945,352	51,856,965	48,043,322	141,720,21
Chile.....	1912	38,599,282	55,340,706	33,189,070	28,321,776	16,806,341	24,526,81
Peru.....	1913	7,779,616	16,561,235	5,138,902	2,970,857	8,541,934	14,761,35
Ecuador.....	1911	¹ 2,835,854	986,148	2,385,758	2,139,552	2,591,629	3,190,06
Uruguay.....	1912	¹ 12,575,508	6,508,127	¹ 7,849,094	7,860,272	¹ 5,638,402	2,655,37
Paraguay.....	1912	² 1,295,248	³ 799	² 1,500,958	² 843,459	² 304,888	² 59
Colombia.....	1912	² 7,838,878	² 4,376,182	² 4,201,125	² 1,854,211	² 7,612,037	² 15,832,88
Venezuela.....	1913	3,994,733	767,031	2,586,986	5,563,768	6,944,136	8,470,56
Bolivia.....	1912	3,528,042	26,044,974	6,423,802	4,357,101	1,787,321	152,58

¹ Figures are for 1911 and are taken from the Almanach de Gotha.

² Figures taken from U. S. Daily Consular and Trade Reports.

³ Figures are for 1911 and are taken from Pan American Union publication.

The above figures show that exports from Great Britain and Germany to South America considerably exceed imports from that region.

This balance in favor of Europe may, in a measure, be explained by the fact that proceeds of loans issued by the South American Governments in Europe are remitted, not in cash, but in goods.

AMERICAN EXPORTS CONCENTRATED.

Our export trade to South American countries particularly, and to a lesser degree the Central American States, is concentrated. It is estimated that 75 per cent of our principal exports to South America are the products of large organizations. Our principal exports to the River Plate may be roughly stated to consist of agricultural machinery and allied products, steel products, oil products—kerosene, gasoline, etc.—and printing paper of various kinds. Our exports to Brazil, Chile, and Peru are largely limited to steel and oil products, locomotives, and electrical machinery. Our trade in cotton cloths, shoes, stockings, wearing apparel, and miscellaneous goods has not made up

an important part of the total because of our unwillingness or inability to meet British and German competition.

Even before the war our export trade to all Latin America, and notably South America, had begun to decrease on account of the prevailing financial stringency. Our imports, however, increased in value, and the trade balance adverse to the United States for the fiscal year 1913-14 greatly exceeded that of 1912-13 both for all Latin America and for South America alone.

The accompanying table shows the distribution of this trade:

	Exports.		Imports.	
	1913	1914	1913	1914
Central America, West Indian republics, and Mexico.....	\$177,627,892	\$157,530,244	\$224,685,344	\$246,405,592
South America.....	146,147,993	124,539,909	217,734,629	222,677,075
Total.....	323,775,885	282,070,153	442,419,973	469,082,667

Trade balance adverse to the United States.

	1913	1914
In trade with Central America, West Indian republics, and Mexico.....	\$47,057,452	\$88,875,348
In trade with South America.....	71,586,636	98,137,166
In trade with all Latin America.....	118,644,088	187,012,514

EFFECT OF THE WAR ON SOUTH AMERICAN COUNTRIES.

Since August 1 of this year the countries in South America whose currency is not already on a gold basis have experienced a serious depreciation of their paper money.

The export of copper, tin, nitrates, coffee, and other products has been curtailed because of loss of the normal European markets. As indicative of financial conditions, bank holidays and moratoria were declared at the outbreak of hostilities, which were extended in certain countries from 60 to 90 days. The effect has been damaging to American exporters, as, under such circumstances, drafts due in August will not be liquidated until November or December. This means a large accumulation of draft indebtedness never contemplated by the shipper. Specie payments were suspended.

Collections throughout South America, therefore, are difficult, orders are falling off, and after our exporters have completed their contracts for this year there seems less prospect for new business, unless steps are taken to relieve the situation.

DIFFICULTIES OF SETTLEMENTS FOR SOUTH AMERICAN TRADE.

Since the balance of our trade with South America is heavily against the United States, there should be exchange facilities which would enable our exporters to obtain payment from balances created in New York in settlement for goods imported into this country from South America.

Such balances, however, are not maintained in this country.

The external debt of the South American Republics (Federal, State, and municipal), amounts approximately to \$1,632,488,580. The bulk of those funds were borrowed from Great Britain. South America therefore invariably has payments to make in London.

The greater part of South American banking business, moreover, is conducted by British-owned institutions. These facts, together with the facilities offered by the London discount market, have induced German and other European-owned banks trading in South America to maintain London agencies. Sterling credits, therefore, have been the basis of South American trade.

Our exports to and imports from Latin-America are shipped direct. They are, however (almost exclusively in South American trade, and largely in Central American trade), paid for in sterling bills of exchange.

United States exporters have, in the past, converted their dollars into sterling at the rate of the day, drawing against their South American customers at 90 days sight, payable in 90 days bills on London. Importers have accepted 90 days sterling bills, which they have liquidated at the current rate of exchange. This has necessitated the conversion of dollars into sterling in the United States, and a reconversion in South America from sterling into the currency of the buying country.

Thus, although the balance of the South American trade of the United States has been increasingly heavy against this country, we do not make settlement direct. We have been obliged, either by the shipment of gold or goods, to settle this adverse balance by remitting to England either gold or goods, to meet interest charges on the South American debt, and to pay for goods purchased in Europe by the South American countries.

Recent attempts to establish direct exchange with South America have not been successful in relieving the trade congestion incident to the dislocation of London exchange. A few New York banking institutions have been ready to extend accommodation to American exporters, but the credits available have been wholly inadequate. This fact, together with the difficulty of making collections in South America, has seriously embarrassed our exporters, while our importers, finding it practically impossible to dispose of New York bills to bankers in South America, have been penalized by the almost prohibitive cost of London credits.

PRESENT PROBLEMS.

(1) Because of the war the Latin-American countries are confronted by the necessity—

(a) Of marketing their products despite the shrinkage of world purchasing power.

(b) Of obtaining funds to move crops and to continue indispensable industrial and agricultural development normally financed by Europe.

(2) The United States is confronted—

(a) By the necessity of holding its normal export trade with Latin America.

(b) By the possibility of increasing that trade by filling Latin-American needs for merchandise hitherto purchased in Europe, which Europe can not now supply.

The solution of these problems depends upon —

- (1) Production.
- (2) Transportation—Shipping and insurance.
- (3) Financing: (a) Of production, (b) of transportation, (c) of settlements.

Production in the United States can be maintained if there be a sufficient market at home and abroad for American goods. Production in South America may continue, but can not be further developed unless financial assistance be obtained.

At the present time steamships are available and sailing regularly from this country to the principal ports of Latin America and from those ports to the United States. Many of these vessels are unable to obtain full cargoes. Although only a limited number are under the United States flag the above will clearly indicate to exporters, importers, and manufacturers that they need not hold back from entering the field on this account.

Before trade can resume its normal course, the exchange problem must be solved, either by the restoration of old, or by establishment of new credit facilities.

NEW CREDIT MACHINERY NEEDED.

Old methods may no longer be serviceable in the situation which will result from the readjustment following the war. It should now be possible indeed, in the mutual interest of the Latin-American Republics and ourselves, to create new credit machinery to perform the functions of the old, and which will at the same time rid us, at least partially of a dependence upon the London credits and European financial markets which, though essential in the past, has proved to be seriously embarrassing.

Deprived of the European loans with which their resources were being developed, Latin-American countries are now undergoing a serious curtailment of industry and development. The consequences in many instances will be serious, not only to these countries themselves but also to the countries which expected to supply the materials.

It has been increasingly the practice of European bankers to stipulate the use of European material in the projects which they financed. Latin-America is now turning to the United States for funds. This country is hardly in a position to undertake considerable investments at the present time, *but industries with an already considerable trade at stake may well consider the necessity of protecting that trade by obtaining for their customers some relief from the present stringency. Such investments, if judiciously made, would yield an ultimate fair return and meanwhile provide a market for American materials which can not now be sold.*

The question of creating a market for Latin-American securities in the United States, therefore, is highly important. The development of our trade with those countries is largely dependent on its satisfactory solution.

ESTABLISHMENT OF COMMERCIAL CREDITS MOST IMPORTANT.

Unless the restriction of commercial credits be remedied, however, we will not only be unable to extend our trade but we will lose a considerable portion of that which we already have.

The present effort to secure cooperation of American bankers in massing a gold fund to satisfy our obligations abroad by promising to cause London exchange again to approach normal, will lessen to the American importer the expense of liquidating in London his South American indebtedness. It will nevertheless give effect to the old alienation of the selling power we should derive from purchases of South American products. Liquidation of our South American indebtedness in London will pay for British exports to Latin-America, at a time when American merchandise, intimidated by moratoria, remains congested on our docks. Our available money will serve Great Britain's effort to capture South American markets vacated, perforce, by Germany.

Whenever there is a great disturbance of the world's finances, American exporters and importers in South American trade are injured, because of their dependence on London. *This has happened four times in 25 years.*

So long as South America must meet interest settlements in London by shipment of goods to the United States, under the old three-cornered system, our South American trade must, to a certain degree, depend upon London exchange.

But in view of the facts above mentioned, it has seemed to your committee that the need for independence, emphasized by the present situation, should be recognized. We feel that an attempt should now be made to evolve some plan whereby we might take advantage of our large direct trade with Latin-America to make a market for bills drawn in dollars, and establish a direct exchange, not with the view to eliminating sterling credits now or later, but in order to provide an exchange channel which will supplement, offset, or compete with London, and be available in an emergency when London exchange is disorganized.

The maintenance of exchange relations depends on a credit machinery and reciprocal balances. This machinery will partially be provided under the Federal reserve act, which permits American banks to open branches abroad and permits a rediscount in this country of commercial paper, based on shipments of commodities in foreign trade. These steps, however, have not yet been effected, and your committee appreciating that the installation of this machinery may require considerable time, has considered means for temporary relief.

COOPERATIVE EXCHANGE AS EMERGENCY MEASURE.

A plan for the establishment of a Merchants' "Cooperative exchange," or clearing house for Latin-American trade, has been proposed. This, it has been suggested, would enable importers and exporters of goods to and from Latin-America to watch credits, balances to be remitted on certain definite settling dates. The chief argument for such an institution is that it would bring together exporters and importers among whom there is now no cohesion. Both

know their cash requirements each month. If the exporters require say \$5,000,000 to pay for their October shipments to Brazil, and the importers a like amount to pay for their imports from Brazil, such an exchange might be able easily to liquidate transactions in New York.

The plan, however, is open to serious objection for the following reasons:

- (1) The necessity and difficulty of securing the cooperation of a sufficient number of importers and exporters.
- (2) The necessity and difficulty of standardizing credits.
- (3) The difficulty of reaching an agreement as to the rate of exchange between South American currency and United States dollars.
- (4) The difficulty due to the seasonal variations of shipments of South American produce and the consequent fluctuation in the demand for balances in New York or South America.
- (5) The disorganized financial situation in South America, which increases the risk in securing settlements in the South American republics.
- (6) The necessity of creating and maintaining an expert and, therefore, expensive organization.

The difficulty as regards South America, however, would still remain, for it would be impossible within any reasonable time to organize in the principal cities of South America sufficiently extensive cooperative associations of importers and exporters of American products.

Standardization of South American credits, therefore, could only be secured by the guaranty of American shippers or importers, or by the guaranty of the South American Governments themselves.

Your committee, therefore, after careful consideration, feels that the suggested "cooperative exchange" would not be practical, although a powerful banking group or large banking institution willing to assist in maintaining and developing our Latin-American trade might be able to secure and render mutually beneficial the organized cooperation of exporters and importers in matching credits.

RECOMMENDATIONS.

Your committee, however, believes that the extension of credits might be facilitated and some relief afforded pending the establishment of the Federal reserve banks if, in addition to permitting national banks which have signified their intention to enter the reserve associations to accept commercial paper, action be taken by the Federal Reserve Board to make immediately effective the rediscount provision of the new banking system, thus assuring early establishment of a discount market.

Your committee, while appreciating the necessity of conserving the banking resources of this country for the protection of our domestic situation, nevertheless believes that the *cessation or curtailment of our trade with Latin America will in itself be highly injurious to American industry*, just as we believe that *the extension of this trade would make for the prosperity of the country at large*, as well as of those directly interested. We therefore hope that American banking institutions may be induced to meet the present emergency, not by tentative and inadequate measures, but by extending accommodation sufficient at least to assure the maintenance of our already established trade.

EXTENSION OF TRADE.

The question of extending American commerce with Latin-American depends primarily, as does the problem of maintaining our trade, upon the establishment of commercial credits, upon our ability to finance Latin-American enterprise, purchase the products of its soil and industries and upon the perfection of our selling machinery.

Your committee has not attempted to formulate suggestions as to the manner in which the individual manufacturer should proceed to establish a market for his products in South America. Nor does it here dwell upon the importance of adaptation of the product to the needs of the market or proper packing. Too high praise can not be given the Government, particularly the Department of Commerce under the Hon. W. C. Redfield, for its effective propaganda on these essential points and for its efforts adequately to assist extension of our foreign trade.

The enlightened services of the Pan American Union in safeguarding good understanding among the Republics of the Western Hemisphere, and in making its information and advice available to all affected by the commercial problems arising at this juncture are worthy of the warmest commendation.

CAUTION NOW ADVISABLE.

Your committee feels, however, that merchants and manufacturers now contemplating an entry into the Latin-American field should be careful to avail themselves of the easily accessible information concerning these markets. It is suggested that they should at the outset remember that the cost of maintaining individual representatives would probably be too great for any one of them to bear themselves. It is therefore suggested that associations consisting of the smaller firms or corporations engaged in kindred lines of production might be formed, and that either one or more representatives should be sent to South America to look after the interests of such associations, thereby bringing the cost of representation within a reasonable limit.

It has been suggested that American manufacturers should combine to send to South America trade exhibits, showing the various articles which they have for sale. Your committee, however, is not inclined to feel that such measures would be productive of any permanent results. It is suggested instead that manufacturers and dealers desiring to place their products in Latin America, and who, for any reason, prefer not to send their own representatives there, could establish connections with export houses already doing business in those countries and maintaining large branch offices in the principal South American cities fully equipped with efficient sales organizations or who have established connections, and in certain lines of goods—foodstuffs, notions, and miscellaneous articles—join in establishing what might be called for want of a better name an "American store," in certain of the most important cities.

Ventures of this sort, however, require considerable capital and experienced men, and for the sake of the ultimate development of mutually beneficial commercial relations with Latin-America it is believed that our merchants and manufacturers should not attempt

to install their own establishments in Latin America unless they are prepared to meet initial losses and disappointments before realizing even moderate profits in what must necessarily be a developing, rather than a ready-made, business.

Your committee begs, therefore, to summarize the results of the investigations and to state its belief that the present disorganization of the trade of the United States with Latin America may best be remedied and placed on a permanently satisfactory basis as follows:

1. The establishment of a dollar exchange.

(a) By the ultimate creation of a discount market.

(b) Pending the establishment of a discount market, by the extension of adequate accommodations by banking institutions, and the establishment of reciprocal balances in the United States and in Latin-America for financing Latin-American trade.

2. Perfection of our selling machinery.

(a) By furnishing additional support to commission houses already familiar with Latin-American business.

(b) By forming associations of merchants and manufacturers to be jointly represented in Latin-America.

(c) By obtaining information as to the possibilities of developing retail stores in large Latin-American cities.



